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ALLEN PARISH HOSPITAL
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2006, 2005 AND 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11-15-06

Hospital Service District No 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Years Ended June 30, 2006, 2005 and 2004

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**Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital**

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 3 of Allen Parish, State of Louisiana d/b/a Allen Parish Hospital (the Hospital) provides background information and management's analysis of the Hospital's financial performance during the fiscal years that ended June 30, 2006, 2005 and 2004. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

Financial Highlights

- The Hospital's total assets increased by \$331,098, \$359,435 and \$1,567,974, respectively, for 2006, 2005 and 2004. Primarily as a result of an increase in cash and cash equivalents and accounts receivable in 2006 and increases in accounts receivable and property, plant and equipment in 2005. These increases can be attributed to reestablishing emergency services which improved inpatient census and outpatient volume, thus increasing accounts receivable.
- During the year, the Hospital's total operating revenues increased \$1,212,856, \$3,204,407 and \$2,226,389 for 2006, 2005 and 2004, respectively. Increases in patient service revenue were the majority of these increases. Expenses increased \$1,300,904, \$2,792,266 and \$1,861,527 or 15.5%, 49.9% and 49.8%, for fiscal years 2006, 2005 and 2004, respectively. The greatest of these increases can be contributed to salaries and consulting fees, which increase relative to patient volume. The Hospital had a gain from operations in 2006 of \$402,351 compared to operating income of \$490,399 for 2005 and \$78,258 in 2004.

In 2006, \$198,000 was invested in capital assets versus the significant capital acquisitions of \$431,438 and \$808,080 in previous years as the Hospital prepared to open its emergency department. The source of the funding for previous years' expenses came from the \$1,500,000 bond

Required Financial Statements

The financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements provide overall information about the Hospital's financial activities on both short-term and long-term basis. The balance sheets present information about its assets (resources) and liabilities (the amounts obligated to its creditors). The statements of revenue, expenses, and changes in net assets present information about the current and prior year's activities in revenues and expenses. This statement also provides useful information for determining whether the Hospital's patient service revenue and other revenue sources were sufficient to allow the Hospital to recover all of its costs. The final required financial statement is the statement of cash flows which provides information about the Hospital's cash from operations, investing and financing activities. In addition, this statement provides useful information to answer questions such as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Financial Analysis of the Hospital

The balance sheet and the statement of revenue, expenses and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Financial Analysis of the Hospital (Continued)

and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Net Assets

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

TABLE 1
Condensed Balance Sheets

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>
Total current assets	\$ 2,813,901	\$	2,379,279	\$	2,036,138	\$	1,512,128
Capital assets, net	1,718,563		1,677,643		1,432,162		748,984
Assets whose use is limited	55,248		193,868		400,971		-0-
Other assets	16,257		22,081		44,165		86,350
Total assets	<u>\$ 4,603,969</u>	\$	<u>4,272,871</u>	\$	<u>3,913,436</u>	\$	<u>2,345,462</u>
Total current liabilities	\$ 1,543,591	\$	1,330,370	\$	1,330,696	\$	1,070,716
Long-term debt, net of current maturities	1,183,334		1,390,848		1,462,372		186,303
Total liabilities	2,726,925		2,721,218		2,793,068		1,257,019
Invested in capital assets, net of related debt	227,460		5,996		(265,621)		539,021
Restricted net assets	55,248		193,868		400,971		-0-
Unrestricted net assets	1,594,336		1,351,789		985,018		549,422
Total liabilities and net assets	<u>\$ 4,603,969</u>	\$	<u>4,272,871</u>	\$	<u>3,913,436</u>	\$	<u>2,345,462</u>

As can be seen in Table 1, total assets have increased by \$331,098 in 2006, \$359,435 in 2005 and \$1,567,974 in 2004. Increases in 2006 and 2005 can be attributed to increases in patient service revenue from activity associated with the emergency room. The major change for 2004 occurred with current asset increases in accounts receivable and investment in property, plant and equipment. The profits from these investments are being realized at this time. The current ratio increased to 1.82 in 2006 and 1.79 in 2005 versus 1.53 in 2004 and 1.41 in 2003. It should be noted that this increase is indicative of the Hospital's decision to reinvest current assets in increased patient services.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Summary of Revenue, Expenses and Changes in Net Assets

The following table represents the Hospital's Statements of Revenue, Expenses and Changes in Net Assets for the fiscal years ended June 30:

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net patient service revenue	\$ 9,292,378	\$ 8,182,780	\$ 4,750,192	\$ 3,234,516
Maintenance taxes	577,400	578,098	555,922	114,035
Other revenue	<u>223,462</u>	<u>119,506</u>	<u>369,863</u>	<u>101,037</u>
Total operating revenues	<u>10,093,240</u>	<u>8,880,384</u>	<u>5,675,977</u>	<u>3,449,588</u>
Salaries and employee benefits	4,892,340	4,153,059	2,821,151	2,106,245
Supplies and other	2,196,002	2,055,070	1,553,238	976,444
Professional, mgt. and consulting fees	1,943,391	1,631,923	821,777	350,492
Insurance	263,072	210,642	183,939	165,071
Depreciation and amortization	<u>396,084</u>	<u>339,291</u>	<u>217,614</u>	<u>137,940</u>
Total operating expenses	<u>9,690,889</u>	<u>8,389,985</u>	<u>5,597,719</u>	<u>3,736,192</u>
Operating income (loss)	402,351	490,399	78,258	(286,604)
Nonoperating income (expenses)	<u>(76,960)</u>	<u>(59,114)</u>	<u>(46,333)</u>	<u>(7,509)</u>
Excess of revenue over expenses	325,391	431,285	31,925	(294,113)
Net assets - beginning of year	<u>1,551,653</u>	<u>1,120,368</u>	<u>1,088,443</u>	<u>1,382,556</u>
Net assets - end of year	\$ <u>1,877,044</u>	\$ <u>1,551,653</u>	\$ <u>1,120,368</u>	\$ <u>1,088,443</u>

Sources of Revenues

Net Patient Service Revenue

During fiscal year 2006, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. Effective October 1, 2005, reimbursement for Medicare inpatient psychiatric services began a four (4) year transition to a prospective method based on various factors. During the year, provisions for bad debt increased by \$250,368 versus an increase of \$995,503 and \$238,227 in 2005 and 2004, respectively, primarily due to the opening of emergency services along with an increased number of

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Net Patient Service Revenue (Continued)

uninsured patients in the psychiatric unit A new physician clinic was opened and physical therapy services were offered in fiscal year 2006

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30:

TABLE 3
Payor Mix by Percentage

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	35.0%	38.8%	40.3%	34.0%
Medicaid	38.8%	37.6%	46.7%	59.5%
Commercial	15.6%	15.8%	10.9%	2.9%
Self-pay and other	<u>10.6%</u>	<u>7.8%</u>	<u>2.1%</u>	<u>3.8%</u>
Total patient revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Other Revenue

Other revenue includes cafeteria sales, rental income, grant income, and other miscellaneous services. The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and certificates of deposit. These investments earned \$13,404, \$7,858 and \$7,256 during fiscal years 2006, 2005 and 2004, respectively.

Operating and Financial Performance

The following summarizes the Hospital's Statements of Revenue, Expenses and Changes in Net Assets between 2006, 2005 and 2004:

Overall activity as measured by combined acute patient, skilled patient and psychiatric patient discharges, increased by 112 or 12% during 2006 from an increase of 23% or 994 discharges in 2005 compared to 809 discharges in 2004. Patient days increased from 9,690 to 10,236 in fiscal year 2006, or 6%. Patient days in 2005 had increased more than 25% over the prior year to 9,690 from 7,771 in 2004. The average length of stay for acute patient stays decreased during the past year to 2.73 compared to 2.85 days in 2005 and 3.26 days in 2004. The average length of stay for skilled care patients increased to 13.04 days in 2006, compared to 10.62 and 9.91 days in 2005 and 2004, respectively. Lengths of stay averages for psychiatric care continue to decrease from 14.45 days in 2004 to 14.29 days in 2005 to 13.33 days in 2006. Total net patient service revenue increased \$1,109,598, \$3,432,588 and \$1,515,676 in 2006, 2005 and 2004, respectively. Percentage increases for these years are 13.6%, 72.2% and 46.9%, respectively.

Inpatient and Outpatient revenue increased in 2006 and 2005 by \$579,516 or 5.8% and \$1,202,144 or 20.5%, respectively. Outpatient revenue increases are due to added services such as ER, endoscopy,

**Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital**

Management's Discussion and Analysis

Operating and Financial Performance (Continued)

laboratory, and radiology. Outpatient services were expanded in fiscal year 2006 to include a new physician clinic. Inpatient days in 2006 showed an increase of 546 or 5.6% compared to 2005.

Net days in accounts receivable continued a decline from 87 days in 2004 to 63 days in 2005 and 62 days in 2006. Management continues to aggressively work to improve collection of accounts receivable.

Employee related expenses continued their rise to \$4,892,340 or an increase of \$739,281 over 2005 expenses of \$4,153,059 and 2004 expenses of \$2,821,151. Additional benefits, such as retirement and health insurance, and an increase in staffing are the cause of the continued rise in employee cost. As a percentage of net patient service revenue, these expenses are 52.6%, 50.7%, and 59.4% in 2006, 2005 and 2004, respectively. The leveling of the percentages demonstrates the increase in productivity and patient volume during the last two years.

Supplies and other expenses increased by \$140,932 compared to \$501,832 in 2005 and \$576,794 in 2004. Prior year increases occurred due to added services, general inflation, and an overall increase in the cost of drugs over the prior year. Current year increases can be explained by increased patient volume, inpatient and outpatient.

Professional, management and consulting fees increased by \$311,468 in fiscal year 2006 compared to the 2005 increase of \$810,146, or 99%. The large 2005 increase primarily occurred due to the additional expense of providing 24 hour emergency service coverage by a licensed physician in the Hospital's emergency department.

Insurance expense increased by \$52,430, \$26,703, and \$18,868 in 2006, 2005 and 2004, respectively. This increase occurred due to the industry wide increase in the cost of providing general liability and medical malpractice insurance for health care facilities.

With the exception of salaries and benefits, the operating expenses increased by a total of \$1,460,358 for 2005, compared to an increase of \$561,623 in 2006. The 2004 increase was \$1,146,621. As a percentage of net patient service revenue, total operating expenses, without salaries and benefits, were approximately 51.6%, 51.8% and 58.5% for fiscal years 2006, 2005 and 2004, respectively.

Depreciation and amortization expense increased by \$56,793 in 2006 compared to an increase of \$121,677, or 56%, in 2005. The increase is due to new assets purchased during 2006. The increase in 2005 is due to additions to capital assets of \$589,452 during 2005.

Interest expense increased \$23,392, or 35% from 2005. In 2005, this expense increased \$13,383, or 25%, from the prior year. The increase is primarily due to increases in financing activity by the Hospital during 2006 and 2005. Maintenance tax income increased \$22,176, or 4%, for 2005, but dropped by \$698 during the current fiscal year.

An increase of other operating revenue of \$103,956 occurred in fiscal year 2006. This revenue was insurance proceeds received due to Hurricane Katrina damage. Income decreased \$250,357 or 68% in 2005, primarily due to a forgiveness of debt valued at \$318,603 during fiscal year 2004.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Capital Assets

In fiscal year 2006, the Hospital invested in and replaced equipment. During fiscal years 2004 and 2005, the Hospital made its largest investments in capital assets in many years. The Hospital's capital assets activities are included in Table 4 below:

TABLE 4
Capital Assets

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>
Land and land improvements	\$ 72,045	\$	66,886	\$	51,717	\$	51,717
Buildings	1,546,811		1,502,867		1,485,515		1,407,927
Fixed equipment	240,716		59,780		61,580		60,332
Major movable equipment	<u>2,954,921</u>		<u>2,756,564</u>		<u>2,325,126</u>		<u>1,517,046</u>
 Totals at historical cost	 4,814,493		 4,386,097		 3,923,938		 3,037,022
 Less accumulated depreciation and amortization	 3,106,376		 2,718,803		 2,506,196		 2,290,038
Construction in progress	<u>10,446</u>		<u>10,349</u>		<u>14,420</u>		<u>-0-</u>
 Net property, plant and equipment	 \$ <u>1,718,563</u>	\$	 <u>1,677,643</u>	\$	 <u>1,432,162</u>	\$	 <u>746,984</u>

In 2004 and 2005, the Board of Directors and management made a decision to return and enhance such acute care services as emergency, endoscopy, radiology, and laboratory services. This decision required a considerable reinvestment in capital assets. The funding for this investment came from bond indebtedness secured by the passage of a new Ad Valorem tax. The total bond value was \$1,500,000 and by June 30, 2005, all of the funds were invested for capital related additions and improvements.

Long-Term Debt

At year-end, the Hospital had \$1,491,103 compared to \$1,671,647 in short-term and long-term debt at June 30, 2005. The debt decreased by \$26,136 in fiscal year 2005. Principal payments on the outstanding debt totaled \$321,897, \$269,038 and \$288,180 for 2006, 2005 and 2004, respectively. More detailed information about the Hospital's long-term liabilities is presented in the notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
Allen Parish Hospital

Management's Discussion and Analysis

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



LESTER, MILLER & WELLS

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the Hospital), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 2006, 2005 and 2004, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital as of June 30, 2006, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 30, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Two

Management's Discussion and Analysis on pages "i" through "vii" is not a required part of the financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it

Hester, Miller & Wells

Certified Public Accountants

October 30, 2006



Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Balance Sheets
June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 730,449	\$ 498,114	\$ 500,136
Investments	198,380	193,838	191,139
Patient accounts receivable, net of estimated uncollectibles (Note 4)	1,587,752	1,417,547	1,126,125
Inventory	257,513	217,072	187,285
Prepaid expenses	<u>39,807</u>	<u>52,708</u>	<u>31,453</u>
 Total current assets	 <u>2,813,901</u>	 <u>2,379,279</u>	 <u>2,036,138</u>
Property, plant and equipment, net (Note 5)	1,718,563	1,677,643	1,432,162
Assets whose use is limited (Note 6)	55,248	193,868	400,971
Other assets	<u>16,257</u>	<u>22,081</u>	<u>44,165</u>
 Total assets	 <u>\$ 4,603,969</u>	 <u>\$ 4,272,871</u>	 <u>\$ 3,913,436</u>
 Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 421,792	\$ 314,788	\$ 344,165
Accrued expenses (Note 7)	260,129	147,218	211,077
Estimated Medicare and Medicaid program settlements	553,901	587,565	540,043
Current maturities of long-term debt (Note 8)	<u>307,769</u>	<u>280,799</u>	<u>235,411</u>
 Total current liabilities	 <u>1,543,591</u>	 <u>1,330,370</u>	 <u>1,330,696</u>
Long-term debt, net of current maturities (Note 8)	<u>1,183,334</u>	<u>1,390,848</u>	<u>1,462,372</u>
 Total liabilities	 <u>2,726,925</u>	 <u>2,721,218</u>	 <u>2,793,068</u>
 Net assets			
Invested in capital assets, net of related debt	227,460	5,996	(265,621)
Restricted net assets	55,248	193,868	400,971
Unrestricted net assets	<u>1,594,336</u>	<u>1,351,789</u>	<u>985,018</u>
 Total net assets	 <u>1,877,044</u>	 <u>1,551,653</u>	 <u>1,120,368</u>
 Total liabilities and net assets	 <u>\$ 4,603,969</u>	 <u>\$ 4,272,871</u>	 <u>\$ 3,913,436</u>

See accompanying notes to financial statements.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Net patient service revenue	\$ 9,292,378	\$ 8,182,780	\$ 4,750,192
Grant income	41,297	15,903	19,595
Maintenance taxes	577,400	578,098	555,922
Other	<u>182,165</u>	<u>103,603</u>	<u>350,268</u>
 Total revenues	 <u>10,093,240</u>	 <u>8,880,384</u>	 <u>5,675,977</u>
 Expenses:			
Salaries and benefits	4,892,340	4,153,059	2,821,151
Medical supplies and drugs	989,332	1,021,832	773,492
Supplies	553,470	479,604	332,130
Professional, management and consulting fees	1,943,391	1,631,923	821,777
Other expenses	653,200	553,634	447,616
Insurance	263,072	210,642	183,939
Depreciation and amortization	<u>396,084</u>	<u>339,291</u>	<u>217,614</u>
 Total expenses	 <u>9,690,889</u>	 <u>8,389,985</u>	 <u>5,597,719</u>
 Operating income (loss)	 402,351	 490,399	 78,258
 Nonoperating income (expenses):			
Interest income	13,404	7,858	7,256
Interest expense	<u>(90,364)</u>	<u>(66,972)</u>	<u>(53,589)</u>
 Excess of revenue over expenses	 325,391	 431,285	 31,925
 Net assets beginning of year	 <u>1,551,653</u>	 <u>1,120,368</u>	 <u>1,088,443</u>
 Net assets end of year	 \$ <u>1,877,044</u>	 \$ <u>1,551,653</u>	 \$ <u>1,120,368</u>

See accompanying notes to financial statements

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Cash Flows
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 9,088,508	\$ 7,938,880	\$ 4,190,549
Other operating cash receipts	800,862	658,010	925,785
Cash paid to suppliers	(4,323,000)	(3,978,054)	(2,725,617)
Cash paid to employees and for employee benefits	<u>(4,779,429)</u>	<u>(4,216,918)</u>	<u>(2,720,069)</u>
Net cash provided (used) by operating activities	<u>788,941</u>	<u>399,918</u>	<u>(329,352)</u>
Cash flows from investing activities:			
Interest on investments	13,404	7,858	7,256
Other assets	-0-	16,500	40,729
Cash invested in certificates of deposit	(4,542)	(2,699)	(2,433)
Cash proceeds from sale of assets	<u>-0-</u>	<u>47,787</u>	<u>-0-</u>
Net cash provided (used) by investing activities	<u>8,862</u>	<u>69,446</u>	<u>45,552</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(321,896)	(269,038)	(288,180)
Interest expense on long-term debt	(90,364)	(66,972)	(53,589)
Proceeds from long-term debt	50,241	-0-	1,500,000
Assets whose use is limited	138,620	207,103	(400,971)
Acquisition of capital assets	<u>(340,069)</u>	<u>(342,479)</u>	<u>(623,335)</u>
Net cash provided (used) by capital and related financing activities	<u>(563,468)</u>	<u>(471,386)</u>	<u>133,925</u>
Net increase (decrease) in cash and cash equivalents	232,335	(2,022)	(149,875)
Cash and cash equivalents, beginning of year	<u>498,114</u>	<u>500,136</u>	<u>650,011</u>
Cash and cash equivalents, end of year	\$ <u>730,449</u>	\$ <u>498,114</u>	\$ <u>500,136</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>90,364</u>	\$ <u>66,972</u>	\$ <u>56,216</u>
Equipment acquired under capital lease	\$ <u>91,111</u>	\$ <u>242,902</u>	\$ <u>278,000</u>

See accompanying notes to financial statements.

Hospital Service District No 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Statements of Cash Flows (Continued)
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 402,351	\$ 490,399	\$ 78,258
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	396,084	339,291	217,614
(Gain) loss on sale of assets	-0-	(41,594)	-0-
Provision for bad debts	1,592,790	1,342,422	346,919
Changes in:			
Patient accounts receivable	(1,762,995)	(1,633,844)	(959,627)
Estimated Medicare and Medicaid program settlements	(33,664)	47,522	53,065
Inventory	(40,441)	(29,787)	(45,928)
Prepaid expenses	12,901	(21,255)	(12,816)
Accounts payable	107,004	(29,376)	(107,918)
Accrued expenses	<u>112,911</u>	<u>(63,860)</u>	<u>101,081</u>
Net cash provided (used) by operating activities	\$ <u>786,941</u>	\$ <u>399,918</u>	\$ <u>(329,352)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements
Years Ended June 30, 2006, 2005 and 2004

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, home health, acute inpatient and psychiatric hospital services.

Hospital Land

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Allen Parish residents and grants credit to patients substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 12. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market basis.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The entity is a political subdivision and exempt from taxation.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and related accumulated depreciation is eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are credited or charged to operations currently.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

Revenue and Expenses

The Hospital's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

The Hospital's cash and investments are categorized to give an indication of the level of risk assumed at June 30, 2006, 2005, and 2004. Category (1) includes investments that are insured, or registered in the Hospital's name, or for which the securities are held by the Hospital or its agent in the Hospital's name. Category (2) includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Hospital's name. Category (3) includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the Hospital's name. Balances were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at June 30, 2006, 2005, and 2004.

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Patients	\$ 2,707,378	\$ 1,974,301	\$ 1,246,068
Other	<u>374</u>	<u>246</u>	<u>57</u>
Total	2,707,752	1,974,547	1,246,125
Estimated allowances for uncollectibles	<u>(1,120,000)</u>	<u>(557,000)</u>	<u>(120,000)</u>
Net accounts receivable	\$ <u>1,587,752</u>	\$ <u>1,417,547</u>	\$ <u>1,126,125</u>

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NOTE 4 - ACCOUNTS RECEIVABLE (Continued)

The following is a summary of the mix of receivables from patients and third-party payors at June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	28%	29%	40%
Medicaid	9%	20%	17%
Commercial and other third-party payors	19%	21%	26%
Self pay	<u>44%</u>	<u>30%</u>	<u>17%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment and related accumulated depreciation for the year ended June 30, 2006.

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	47,335	5,160	-0-	52,495
Buildings	1,502,868	66,915	22,972	1,546,811
Fixed equipment	59,780	180,936	-0-	240,716
Major movable equipment	2,756,564	183,740	15,009	2,925,295
Leasehold improvements	-0-	29,626	-0-	29,626
Construction in progress	<u>10,349</u>	<u>10,446</u>	<u>10,349</u>	<u>10,446</u>
Totals at historical cost	4,396,446	476,823	48,330	4,824,939
Accumulated depreciation	<u>2,718,803</u>	<u>389,571</u>	<u>1,998</u>	<u>3,106,376</u>
Net	\$ <u>1,677,643</u>	\$ <u>87,252</u>	\$ <u>46,332</u>	\$ <u>1,718,563</u>

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NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	32,167	15,169	-0-	47,336
Buildings	1,485,515	35,502	18,150	1,502,867
Fixed equipment	61,580	-0-	1,800	59,780
Major movable equipment	2,325,126	538,781	107,343	2,756,564
Construction in progress	<u>14,420</u>	<u>-0-</u>	<u>4,071</u>	<u>10,349</u>
Totals at historical cost	3,938,358	589,452	131,364	4,396,446
Accumulated depreciation	<u>2,506,196</u>	<u>333,707</u>	<u>121,100</u>	<u>2,718,803</u>
Net	\$ <u>1,432,162</u>	\$ <u>255,745</u>	\$ <u>10,264</u>	\$ <u>1,677,643</u>
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2004</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	32,167	-0-	-0-	32,167
Buildings	1,407,927	77,588	-0-	1,485,515
Fixed equipment	60,332	1,248	-0-	61,580
Major movable equipment	1,517,046	808,080	-0-	2,325,126
Construction in progress	<u>-0-</u>	<u>14,420</u>	<u>-0-</u>	<u>14,420</u>
Totals at historical cost	3,037,022	901,336	-0-	3,938,358
Accumulated depreciation	<u>2,290,038</u>	<u>216,158</u>	<u>-0-</u>	<u>2,506,196</u>
Net	\$ <u>746,984</u>	\$ <u>685,178</u>	\$ <u>-0-</u>	\$ <u>1,432,162</u>

A summary of assets held under capital leases, which are included in property, plant and equipment, at June 30 follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Equipment	\$ 865,645	\$ 810,356	\$ 608,931
Accumulated depreciation	<u>503,856</u>	<u>433,605</u>	<u>346,738</u>
Total	\$ <u>361,789</u>	\$ <u>376,751</u>	\$ <u>262,193</u>

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NOTE 6 - ASSETS WHOSE USE IS LIMITED

The following assets are restricted as to use as designed below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Restricted by third parties:			
Series 2003 proceeds to be disbursed	\$ <u>55,248</u>	\$ <u>193,868</u>	\$ <u>400,971</u>

NOTE 7 - ACCRUED EXPENSES

A summary of accrued expenses follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries	\$ 175,217	\$ 128,782	\$ 186,889
Payroll taxes	49,790	15,762	13,365
Other	<u>35,122</u>	<u>2,674</u>	<u>10,823</u>
Total	\$ <u>260,129</u>	\$ <u>147,218</u>	\$ <u>211,077</u>

NOTE 8 - LONG-TERM DEBT

A summary of long-term debt, including capital lease obligations, at June 30 follows:

	June 30, <u>2005</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2006</u>	Due Within <u>One Year</u>
Series 2003 bonds	\$ 1,240,000	\$ -0-	\$ 135,000	\$ 1,105,000	\$ 140,000
Series 1998 bonds	27,000	-0-	13,000	14,000	14,000
Note payable - secured	7,195	-0-	7,195	-0-	-0-
Note payable - unsecured	57,768	50,241	53,143	54,866	11,939
Capital lease obligations	<u>339,684</u>	<u>91,112</u>	<u>113,559</u>	<u>317,237</u>	<u>141,830</u>
Total	\$ <u>1,671,647</u>	\$ <u>141,353</u>	\$ <u>321,897</u>	\$ <u>1,491,103</u>	\$ <u>307,769</u>

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NOTE 8 - LONG-TERM DEBT (Continued)

	June 30, <u>2004</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2005</u>	Due Within <u>One Year</u>
Series 2003 bonds	\$ 1,370,000	\$ -0-	\$ 130,000	\$ 1,240,000	\$ 135,000
Series 1998 bonds	39,000	-0-	12,000	27,000	13,000
Note payable - secured	10,705	-0-	3,510	7,195	7,195
Note payable - unsecured	64,249	-0-	6,481	57,768	7,089
Capital lease obligations	<u>213,829</u>	<u>242,902</u>	<u>117,047</u>	<u>339,684</u>	<u>118,515</u>
Total	\$ <u>1,697,783</u>	\$ <u>242,902</u>	\$ <u>269,038</u>	\$ <u>1,671,647</u>	\$ <u>280,799</u>

	June 30, <u>2003</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2004</u>	Due Within <u>One Year</u>
Series 2003 bonds	\$ -0-	\$ 1,500,000	\$ 130,000	\$ 1,370,000	\$ 130,000
Series 1998 bonds	51,000	-0-	12,000	39,000	12,000
Note payable - secured	13,921	-0-	3,216	10,705	3,509
Note payable - unsecured	70,173	-0-	5,924	64,249	6,529
Capital lease obligations	<u>72,869</u>	<u>278,000</u>	<u>137,040</u>	<u>213,829</u>	<u>83,373</u>
Total	\$ <u>207,963</u>	\$ <u>1,778,000</u>	\$ <u>288,180</u>	\$ <u>1,697,783</u>	\$ <u>235,411</u>

The following are the terms and due dates of the Hospital's long term debt at June 30:

- Series 2003 Certificate of Indebtedness, at a variable interest rate not to exceed 4.3%, due in variable annual installments with full repayment at March 1, 2013, secured by a pledge of tax revenues
- Series 1998 Certificates of Indebtedness at 5.05%, due in variable annual installments with full repayment at March 1, 2007, secured by a pledge of tax revenue.
- Secured note payable at 8.75%, secured by the nurses call system, due in monthly payments of \$359.01, paid out March 2006.
- Unsecured notes payable at 9.0%, due in monthly payments of \$1,000 with the first two payments including balloon payments of \$4,000 with the total due in September 11, 2011.
- Unsecured notes payable of \$50,421 imputed interest of .05%, due in monthly payments of \$4,186.79 for purchase of telephone system.
- Capital leases at varying rates of imputed interest 6.39% to 9.68%, with total monthly payments ranging to \$11,820 until 2011, collateralized by leased equipment with a net book value of \$361,789 at June 30, 2006.

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NOTE 8 - LONG-TERM DEBT (Continued)

Scheduled principal and interest payments on long-term debt and payments on capital obligations are as follows:

<u>Year Ending June 30.</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 165,939	\$ 46,476	\$ 141,830	\$ 19,999
2008	153,481	40,842	72,737	12,081
2009	159,276	35,334	66,066	6,584
2010	165,147	29,138	30,205	1,896
2011	176,097	22,297	6,399	124
2012-2013	<u>353,926</u>	<u>23,608</u>	<u>-0-</u>	<u>-0-</u>
Totals	\$ <u>1,173,866</u>	\$ <u>197,695</u>	\$ <u>317,237</u>	\$ <u>40,684</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

A \$500,000 Line of Credit at an interest rate of 4.10% was established at Hancock Bank in June 2006 as a Revenue Anticipation Note, Series 2006. As of June 30, 2006, the Hospital had no outstanding balance on this line of credit.

NOTE 9 - OPERATING LEASES

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2006, that have initial or remaining lease terms in excess of one year.

<u>Year Ending June 30.</u>	<u>Amount</u>
2007	\$ 17,225
2008	<u>18,106</u>
Total minimum lease payments	\$ <u>35,331</u>

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NOTE 10 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations for accrued paid days off and vested sick pay of \$139,993, \$70,412 and \$52,062 in 2006, 2005 and 2004, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 11 - RETIREMENT PLAN

On February 9, 2004, the Hospital elected to participate in the State of Louisiana's Public Employees *Deferred Compensation Plan*, which is a defined contribution plan. The plan was established in accordance with R.S. 42:1301-1308, and Section 457 of the *Internal Revenue Code of 1986*, as amended. At June 30, 2006, 2005 and 2004 there were 72, 69 and 54 plan members, respectively. Employees are eligible to participate in the plan beginning on the date of hire, with a minimum contribution of \$10 per month, up to 100% of compensation, for those under age 50 not to exceed \$15,000 in 2006, for those 50 or older \$20,000 is the limit. The Hospital has elected to contribute 1% of the participating employees' pay. The Hospital holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in employer and employee contributions. The Hospital's contribution was \$23,325, \$17,337 and \$3,809 for the years ended June 30, 2006, 2005 and 2004, respectively.

NOTE 12 - PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2009. The additional payments received under the hold harmless provision were \$91,972, \$76,376 and \$35,964 for the years ended June 30, 2006, 2005 and 2004, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon a cost reimbursement methodology subject to a limit amount per discharge. Effective October 1, 2005, this method of reimbursement begins a four (4) year transition to a prospective method based upon length of stay, diagnosis, and other factors. In year one (1) the Hospital is paid seventy-five percent (75%) based on the old cost based system and twenty-five percent (25%) based on the new prospective system. In year two (2) the blend is fifty/fifty. In year three (3), twenty-five percent (25%) cost and seventy-five percent (75%) prospective. In year four (4) payments are scheduled to be fully prospective.

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NOTE 12 - PATIENT SERVICE REVENUE (Continued)

Medicaid - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient service revenue for the year ended June 30:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Gross patient service charges	\$ 17,700,383	\$ 15,918,723	\$ 10,018,832
Contractual allowances	(6,972,286)	(6,482,347)	(4,904,927)
Medicaid disproportionate share payments	296,920	168,327	-0-
Discounts	(139,849)	(79,501)	(16,794)
Provision for bad debts	<u>(1,592,790)</u>	<u>(1,342,422)</u>	<u>(346,919)</u>
Net patient service revenue	\$ <u>9,292,378</u>	\$ <u>8,182,780</u>	\$ <u>4,750,192</u>

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare and Medicaid gross patient charges	\$ 13,062,077	\$ 12,037,194	\$ 8,107,833
Contractual adjustments	<u>6,217,269</u>	<u>5,868,077</u>	<u>4,591,816</u>
Program patient service revenue without Medicaid UCC	\$ <u>6,844,808</u>	\$ <u>6,169,117</u>	\$ <u>3,516,017</u>
Percent of total gross patient charges	<u>74%</u>	<u>76%</u>	<u>81%</u>
Percent of total net patient revenue	<u>74%</u>	<u>75%</u>	<u>74%</u>

The Hospital received interim amounts of \$296,920, \$168,327 and \$-0- for Medicaid and self-pay uncompensated care services for the years ended June 30, 2006, 2005 and 2004, respectively, which

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NOTE 12 - PATIENT SERVICE REVENUE (Continued)

represents 3.2%, 2.1% and 0.0% of net patient service revenue, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations require retroactive audit of the claimed uncompensated cost and comparison to the interim amounts paid by Medicaid in each fiscal year. Any overpayments will be recouped by Medicaid. Management estimated that the Hospital was overpaid by \$232,000 and \$288,000 during the years ended June 30, 2003 and 2001, and has made provisions for such recoupments. To the extent management's estimates differ from actual results, the differences will be used to adjust income for the period when differences arise.

NOTE 13 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The Hospital has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

NOTE 14 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 12) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Notes to Financial Statements
Years Ended June 30, 2006, 2005 and 2004

NOTE 14 - CONTINGENCIES (Continued)

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 13) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

NOTE 15 - AD VALOREM TAXES

The Hospital levies two property taxes on all property subject to taxation in the service district. The three mills tax was imposed for years 1997 through 2006, a period of ten years. An election will be held November 4, 2006 for the three mills tax. The twelve mills tax runs for a period of ten years, beginning with the year 2003 and ending with the year 2012, to be dedicated and used for operating, maintaining, renovating, and improving emergency medical services. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 5 each year and are due by December 31. The lien date is January 31.

SUPPLEMENTARY INFORMATION

Hospital Service District No 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Net Patient Service Revenue
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Routine services			
Adult and pediatric	\$ 380,114	\$ 410,513	\$ 293,385
Psychiatric	6,365,477	5,789,354	4,999,410
Swing bed	<u>248,000</u>	<u>239,750</u>	<u>90,050</u>
 Total routine services	 <u>6,993,591</u>	 <u>6,439,617</u>	 <u>5,382,845</u>
Other professional services			
Operating room	196,131	315,135	155,055
Radiology	2,371,383	1,287,612	444,775
Nuclear medicine	217,346	858,922	385,404
Laboratory	1,712,528	1,493,955	939,873
Blood	28,485	37,225	24,484
Intravenous therapy	111,495	125,403	50,753
Respiratory therapy	196,853	341,825	161,898
Physical therapy	681,686	219,144	43,931
Electrocardiology	240,105	176,955	75,435
Central supply	375,326	358,025	194,063
Pharmacy	1,559,004	1,620,321	860,946
Sleep lab	-0-	-0-	5,000
Observation room	10,800	19,330	3,710
Physician clinic	896,473	721,881	489,893
Emergency room	1,664,480	1,355,939	309,302
Home health visits	367,200	467,260	457,240
Contract physician	<u>77,497</u>	<u>82,174</u>	<u>34,225</u>
 Total other professional services	 <u>10,706,792</u>	 <u>9,479,106</u>	 <u>4,635,987</u>
 Gross patient service revenue	 <u>17,700,383</u>	 <u>15,918,723</u>	 <u>10,018,832</u>
 Contractual allowances	 6,972,286	 6,482,347	 4,904,927
Medicaid disproportionate share payments	(296,920)	(168,327)	-0-
Discounts	139,849	79,501	16,794
Provision for bad debts	<u>1,592,790</u>	<u>1,342,422</u>	<u>346,919</u>
 Total deductions from revenue	 <u>8,408,005</u>	 <u>7,735,943</u>	 <u>5,268,640</u>
 Net patient service revenue	 \$ <u>9,292,378</u>	 \$ <u>8,182,780</u>	 \$ <u>4,750,192</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Other Operating Revenue
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Meals	\$ 18,590	\$ 17,836	\$ 12,801
Medical records transcript fees	2,248	1,754	2,249
Rental	9,975	10,575	10,675
Debt forgiveness	-0-	-0-	318,603
Gain (loss) on sale of assets	-0-	41,594	-0-
Other income	<u>151,352</u>	<u>31,844</u>	<u>5,940</u>
 Total other operating revenue	 \$ <u>182,165</u>	 \$ <u>103,603</u>	 \$ <u>350,268</u>

Hospital Service District No 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Operating Expenses - Salaries and Benefits
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Administration	\$ 400,023	\$ 351,566	\$ 237,701
Plant operations and maintenance	101,247	69,555	69,402
Housekeeping	113,559	88,489	72,818
Dietary and cafeteria	141,158	124,376	105,200
Medical records	87,589	59,184	34,372
Nursing services, acute care	604,118	562,786	383,482
Psychiatric unit	900,842	803,583	758,462
Operating room	9,937	90	3,331
Radiology	269,286	200,527	109,110
Laboratory	221,747	206,055	133,729
Respiratory therapy	125,848	100,128	63,608
Central supply	31,033	32,202	10,170
Pharmacy	110,418	106,009	18,937
Emergency room	464,929	431,865	112,371
Home health	213,054	205,941	212,993
Physician office	<u>485,214</u>	<u>324,478</u>	<u>258,987</u>
 Total salaries	 <u>4,280,002</u>	 <u>3,666,834</u>	 <u>2,584,673</u>
 Payroll taxes	 313,499	 276,934	 196,625
Health insurance	273,157	188,933	35,467
Retirement	23,325	17,337	3,809
Other	<u>2,357</u>	<u>3,021</u>	<u>577</u>
 Total salaries and benefits	 \$ <u>4,892,340</u>	 \$ <u>4,153,059</u>	 \$ <u>2,821,151</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Operating Expenses - Other Expenses
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Legal and accounting	\$ 88,987	\$ 105,307	\$ 97,368
Repairs and maintenance	115,021	73,392	63,214
Telephone	69,772	88,382	79,871
Utilities	146,368	102,080	75,446
Travel	37,701	58,504	42,799
Rentals	102,842	41,096	34,380
Dues and subscriptions	65,481	66,082	29,055
Miscellaneous	<u>27,028</u>	<u>18,791</u>	<u>25,483</u>
 Total other expenses	 \$ <u>653,200</u>	 \$ <u>553,634</u>	 \$ <u>447,616</u>

Hospital Service District No. 3
Of the Parish of Allen, State of Louisiana
d/b/a Allen Parish Hospital
Hospital Enterprise Fund
Schedules of Per Diem and
Other Compensation Paid to Board Members
Years Ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Board Members:			
Dr. Peggy Allemand	\$ 400	\$ 440	\$ 400
Ms. Carla Marcantel	550	600	450
Mr. Matt Martin	360	280	400
Mr. Ronald Craiger	600	600	450
Mr. Jessie Chaffin	440	480	480
Ms. Barbara Lee	480	280	360
Mr. Richard Hollier	<u>480</u>	<u>440</u>	<u>400</u>
 Total	 \$ <u>3,310</u>	 \$ <u>3,120</u>	 \$ <u>2,940</u>

**LESTER, MILLER & WELLS***A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana

We have audited the financial statements of Hospital Service District No. 3, Parish of Allen, a component unit of the Allen Parish Police Jury, ("Allen Parish Hospital") as of and for the years ended June 30, 2006, 2005 and 2004, and have issued our report thereon dated October 30, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allen Parish Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Hospital's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of management comments.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Board of Commissioners
Hospital Service District No. 3
Parish of Allen, State of Louisiana
Kinder, Louisiana
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allen Parish Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Commissioners, management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester, Miller & Wells

Certified Public Accountants
October 30, 2006



Allen Parish Hospital
Auditors' Comments and Recommendations
Year Ended June 30, 2006

FY 2005 Findings

Findings: The general checking account bank reconciliation contained unreconciled differences. These differences were related to the posting of the physician clinic's accounts receivable.

Recommendation: We recommend reviewing the daily posting of the clinic's deposits and setting up procedures to prevent unreconciled differences.

Response: Management will put procedures in place to ensure account balances and cash are correct.

Resolution: This matter has not been resolved.

FY 2006 Findings

Findings: Various problems were noted in the purchasing of capital assets. Non appropriation clauses were omitted from several capital leases. If this clause is missing, then the Hospital must receive State Bond Commission approval of the debt. Debt of \$50,000 was incurred for a new telephone system. Bids were not solicited and State Bond Commission approval was not obtained for this debt. Bids were not available for review for the purchase of the truck.

Recommendation: We suggest reviewing and complying with hospital service district rules. The Hospital should contact the vendors of the capital leases and request the non appropriation clause be added to all capital leases. The State Bond Commission should be contacted concerning the debt of \$50,000. All bids should be retained at least until the purchases have been audited.

Response: Management will review and comply with the rules that apply to a hospital service district. They will ask vendors of capital leases to add the non appropriation clause to the capital lease agreements.

